

## Durham Research Online

---

### Deposited in DRO:

28 July 2016

### Version of attached file:

Submitted Version

### Peer-review status of attached file:

Not peer-reviewed

### Citation for published item:

Ferry, L. (2016) 'Evidence to the Inquiry on Local Authorities and Commissioners. Parliament's Communities and Local Government Committee.', Documentation. .

### Further information on publisher's website:

<https://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/inquiries/parliament-2015/local-authorities-and-commissioners-16-17/publications/>

### Publisher's copyright statement:

### Additional information:

---

### Use policy

The full-text may be used and/or reproduced, and given to third parties in any format or medium, without prior permission or charge, for personal research or study, educational, or not-for-profit purposes provided that:

- a full bibliographic reference is made to the original source
- a [link](#) is made to the metadata record in DRO
- the full-text is not changed in any way

The full-text must not be sold in any format or medium without the formal permission of the copyright holders.

Please consult the [full DRO policy](#) for further details.

**Written evidence submitted to the Communities and Local Government Inquiry on  
Commissioners and Local Authorities**

**By**

**Dr Laurence Ferry, Durham University<sup>1</sup>**

**11<sup>th</sup> June 2016**

I welcome this opportunity to submit written evidence to the Communities and Local Government Inquiry on Commissioners and Local Authorities. This reply draws on my personal senior level experience and recent published academic work on financial sustainability, accountability and transparency in central and local government.

Overall, the main focus of my response concerns how the Department for Communities and Local Government (DCLG) monitors the performance and governance arrangements of local authorities. With regards to historical context, it is important to note that external inspections and interventions are not a ‘new’ phenomenon for local government. Indeed, such processes at least date back to the early 19<sup>th</sup> century during the genesis of modern local government. In more contemporary times, in the 1970’s following serious maladministration and corruption in local government from the infamous Poulson scandal there was notably the Redcliff-Maud Committee and Salmon Commission that considered in some detail conduct and scrutiny arrangements for local government and then broader public services, and later in the 1980’s the Widdecombe Committee addressed politicisation concerns. All of these inquiries led to changes in codes of conduct, and from the 1990’s onwards these were supplemented with further developments not only in codes of conduct but also in corporate governance (Ferry and Funnell, 2014). In addition, throughout the 1970’s, there was an increasing call for value for money and a better measure of ‘performance’ as a complement to ‘conformance’ concerns, which among other things culminated in the establishment of the Audit Commission in 1982 and subsequent increase in value for money auditing practices (Campbell-Smith, 2008).

Since the Audit Commission was established in 1982 there was an increasingly greater level of inspection and performance management arrangements imposed on local government from

---

<sup>1</sup> Dr Laurence Ferry is an Associate Professor of Accounting at Durham University Business School, and a Member of the Senior Common Room at University College, Durham University, UK. He holds a PhD in Accounting from Warwick Business School and is a Fellow Chartered Public Finance Accountant (FCPFA). Senior level experience has been gained from posts held in both central and local government in the UK, and advisory roles internationally.

central government. This moved from Compulsory Competitive Tendering (CCT) and citizen charter indicators under the Conservatives from 1979 to 1997 and then through a plethora of Best Value, Comprehensive Performance Assessment and Comprehensive Area Assessment (CAA) under New Labour from 1997 to 2010 (Ferry, Eckersley and Zakaria, 2015; Ferry and Eckersley, 2015a). The Audit Commission had to tread a careful balancing act of commenting on performance improvement, but not making the decisions for local government. Otherwise the auditor could be deemed more of a consultant and even manager of local authorities with a potentially damaging perception of overstepping their audit role and independence (Campbell-Smith, 2008).

From 2010 the Conservative led coalition government adopted a policy that has been termed ‘austerity localism’ and as part of this they announced abolition of the Audit Commission and scrapped the centralised performance management arrangements (Ferry, Eckersley and Zakaria, 2015; Ferry and Eckersley, 2015a).

The National Audit Office (NAO) was now given responsibility for reporting on the financial sustainability of local authorities and there was an expectation that performance would be largely policed by citizens acting as an army of armchair auditors through raw data made publicly available as part of a transparency agenda (DCLG, 2010a, 2010b; Ferry, Eckersley and Zakaria, 2015; Ferry and Eckersley, 2015a).

In this new landscape, the NAO (2014) highlight value for money is defined and decided locally and governed by the local accountability system. It is not departments but local communities who are judged to be the value for money arbiter for their place. DCLG’s role in value for money therefore becomes to oversee the local accountability system rather than to monitor spend and construct benchmarks. Indeed under localism the DCLG has less oversight of financial and service sustainability of local authorities who have greater control over their own spending decisions. To date the legal requirement on local authorities for balanced budgets has prevented wholesale financial failure, but financial pressure on an individual local authority is not as obvious. The framework is geared to prevent financial failure, which means financial pressure will more likely lead to service rather than financial impacts. DCLG’s understanding of service impacts relies on other departments and a small number of inspectorates in specific service areas, and the ability of the system is untested to address widespread failures.

Under the new arrangements, and to strengthen any potential shortcomings in intervention, the Local Government Association (LGA) developed a ‘Sector-Led Intervention model’ (SLI) that has operated since 2011 (LGA, 2011). Various evaluations of the SLI have been made (Bennett, Allen, Grace, and Martin, 2014; Downe, Martin, and Doring 2014; LGA 2012a, 2012b, 2014; Planning Advisory Service 2013; Shared Intelligence 2013a, 2013b), and these were often linked with the LGA given their involvement in the design and implementation of the model (Murphy and Jones, 2016).

In a report for the LGA, Bennett, Allen, Grace, and Martin (2014) compared intervention approaches for turnaround of significantly underperforming councils. They suggested a hierarchy exists through ‘self-led’, ‘sector-led’ and ‘centre-led’ intervention, with the latter being recognised as a last resort by central government. Having said that, they acknowledge sector-led and centre-led interventions can effect turnaround with no ‘one best way’. In addition, they outlined an ‘ideal model’ for improvement of landscape. This accepted even under optimal conditions for self-led and sector-led intervention the fall-back position of central government intervention would likely be necessary. They also suggested a protocol for addressing evidence-based concerns about a council’s conduct or performance, which had some similarities to earlier CPA arrangements.

The LGA (2014) in its final report on the evaluation of the SLI suggest that: ‘an independent evaluation of SLI compared to central government intervention, for turning round a council that is visibly failing, concluded that a sector-led approach is better in supporting councils in their improvement journey all else being equal’. In commenting upon this, Murphy and Jones (2016) highlight that Bennett, Allen, Grace, and Martin (2014) and Downe, Martin, and Doring (2014) in their respective reports are more nuanced and sophisticated in considerations and conclusions. Indeed, the improvement journey itself is merely an element of intervention. It could be argued as an example that the sector led approach may not make visible poorly performing councils until much later than a centre led approach, and so may miss earlier intervention opportunities. Nevertheless, Murphy and Jones (2016) highlight more agreement between commentators than disagreement and established some areas for further consideration.

A number of points can be made with regards to the current position of performance management and intervention. Firstly, research has highlighted that the design of intervention needs to take account of various issues. This includes contextual factors that influence and

support intervention processes that are unique to each local authority, the importance of an authoritative voice capable of formulating and implementing a credible strategy, proper understanding of why turnaround is needed, and how problems can be connected with a well-resourced and effectively managed strategy of engagement (Bennett, Allen, Grace, and Martin, 2014).

Secondly, research has suggested that there has been a deterioration in the national evidence base regarding availability, ease of access and understanding of performance information, adequacy of tools and techniques to interrogate and quality assure content, and reduction in support infrastructure for improvement and innovation. This is due to scrapping centralised performance management frameworks that enabled comprehensive benchmarking, abolition of the Audit Commission, Improvement and Development Agency (IDeA) and related improvement agencies, and budget reductions for remaining agencies. In addition, the National Archives and LGA websites do not provide a substitute for the level of previous publicly available, comprehensive and inter-active data on the Audit Commission and IDeA websites. It is somewhat surprising that these invaluable ‘corporate memories’ were not transferred in all their completeness to the NAO, especially given the Secretary of State had identified them to take on the mantle of ensuring future financial sustainability, accountability and transparency of local government, and that such archives could have provided a resource to inform the so called army of armchair auditors (Ferry and Murphy, 2015; Murphy and Jones, 2016).

Thirdly, accountability and transparency arrangements have fundamentally altered. For local government, dismantling institutions such as the Audit Commission and scrapping performance management frameworks and processes that monitored outputs and outcomes for spending meant a shift in focus of top-down accountability from organisational performance to financial conformance. Transparency agenda reforms through on-line publication of all transactions over £500 by local authorities to enable greater bottom-up accountability with citizens acting as ‘armchair auditors’ have not resulted in a performance assessment system that is as rigorous and standardized. From this aspect, accountability arrangements are arguably weaker (Eckersley, Ferry and Zakaria, 2014; Ferry and Eckersley, 2015a, 2015b; Ferry, Eckersley and Zakaria, 2015; Ferry and Murphy, 2015; Murphy and Jones, 2016). More specifically in terms of intervention there are contrasting opinions. For example, the LGA’s final evaluation report (LGA 2014) points to ‘stronger local accountability’ and support for the theory of SLI, although it notes that they wanted to see more evidence of it working in practice.

Whereas, Murphy and Jones (2016) suggest their evidence from managers in local authorities generally considered that there was more merit in the previous regime than in the current regime seeing the latter as more partial, opaque, voluntary and far poorer in terms of quality assurance and, more especially, accountability, transparency and public assurance. Undoubtedly, this is an area that will require further investigation.

Fourthly, there is a concern that the overwhelming focus on balanced budgets and budgetary stewardship to hold down input costs although understandable to address austerity localism pressures may lead to ignoring outputs and outcomes and an associated risk of systemic service failure, say in adult or children services, across the local government sector with a need for greater intervention (NAO, 2014; Ferry and Murphy, 2015; Ferry, Coombs and Eckersley, 2017). Given this situation, local authorities need greater freedom to generate revenue to facilitate innovation and develop more sustainable business practices and service models, although this carries its own risks for inspection and intervention (Ferry, Coombs and Eckersley, 2017).

Fifthly, the inspection and intervention landscape is undoubtedly becoming more complex (NAO, 2014). For example, there has been an increase in the number and complexity of hybrid arrangements and special purpose vehicles involved in local government services (Skelcher and Rathgeb-Smith, 2016) and local authorities have begun to enrol citizens more into governance, delivery and funding of services who in turn have become more challenging of budget decisions (Ahrens and Ferry, 2015).

In summary, the performance and governance arrangements have underwent significant change in local government with implications for inspection and intervention practices. However, this is not so much a retreat from the audit and risk society (Power, 1997, 1999), but a more nuanced evolution that requires consideration of how inspection and intervention need to be designed and implemented.

## **References**

Ahrens, T. and Ferry, L. (2015). Newcastle City Council and the grassroots: Accountability and budgeting under austerity. *Accounting, Accountability and Auditing Journal* 28(6): 909-933.

Bennett, M., Allen, T., Grace, C. and Martin, S. (2014). *Self, Sector or Centre? Approaches to Turnaround*. London: LGA.

Campbell-Smith, D. (2008). *Follow the Money: The Audit Commission Public Money and the Management of Public Services 1983–2008*. London: Audit Commission.

Department of Communities and Local Government. (2010a). “Eric Pickles to disband Audit Commission in new era of town hall transparency.” Accessed 15 December 2015. <https://www.gov.uk/government/news/eric-pickles-to-disband-audit-commission-in-new-era-of-town-hall-transparency>

Department of Communities and Local Government. (2010b). “Eric Pickles ‘shows us the money’ Departmental books are opened to an army of armchair auditors.” Accessed 15 December 2015. <https://www.gov.uk/government/news/eric-picklesshows-us-the-money-as-departmental-books-are-opened-to-an-army-of-armchairauditors>

Downe, J., Martin, S. and Doring, H. (2014). *Supporting Councils to Succeed. Independent Evaluation of LGA’s Corporate Peer Challenge Programme*. London: LGA.

Eckersley, P., Ferry, L. and Zakaria, Z. (2014). A ‘panoptical’ or ‘synoptical’ approach to monitoring performance? Local public services in England and the widening accountability gap. *Critical Perspectives on Accounting* 25(6): 529-538.

Ferry, L., Coombs, H. and Eckersley, P. (2017). Budgetary stewardship, innovation and working culture: Identifying the missing ingredient in English and Welsh local authorities’ recipes for austerity management. *Financial Accountability and Management* xx(x): xx-xx.

Ferry, L. and Eckersley, P. (2015a). Budgeting and governing for deficit reduction in the UK public sector: Act three ‘accountability and audit arrangements’. *Public Money and Management* 35(3): 203-210.

Ferry, L. and Eckersley, P. (2015b). Accountability and transparency: A nuanced response to Etzioni. *Public Administration Review* 75(1): 11-12.

Ferry, L., Eckersley, P. and Zakaria, Z. (2015). Accountability and transparency in English local government: Moving from 'matching parts' to 'awkward couple'? *Financial Accountability and Management* 31(3): 345-361.

Ferry, L. and Funnell, W. (2014). Public sector in crisis? – (Modern) origins of (r)evolution in English local government corporate governance analysed through an analytics of government framework, 8<sup>th</sup> International EIASM Public Sector Conference, Edinburgh University, Edinburgh.

Ferry, L. and Murphy, P. (2015). A comparative review of financial sustainability, accountability and transparency across local public service bodies in England under austerity. Report to National Audit Office (NAO).

Murphy, P. and Jones, M. (2016). Building the next model for intervention and turnaround in poorly performing local authorities in England. *Local Government Studies* xx(x): xx-xx.

Local Government Association. (2011). Taking the lead: self-regulation and improvement in local government London: LGA.

Local Government Association. (2012a). Research report: National Foundation for Educational research 2012 Evaluation of early adopter sector-led improvement programme pilots London: LGA.

Local Government Association. (2012b). Research report: National Foundation for Educational research 2013 Evaluation of the sector-led peer challenge programme. London: LGA.

Local Government Association. (2014). Evaluation of sector-led improvement. London: LGA.

National Audit Office. (2014). Financial sustainability of local authorities. London: HC783.

Planning Advisory Service. (2013). Impact evaluation assessment – 2012/13 end of year report. London: LGA.



Power, M. (1997). From risk society to audit society. *Soziale Systeme* 3(1): 3-21.

Power, M. (1999). *The Audit Society: Rituals of Verification*. Oxford: Oxford University Press.

Shared Intelligence. (2013a). Change gear! Learning from health and wellbeing pilots peer challenges. London: Local Government Association.

Shared Intelligence. (2013b). Review of the health and wellbeing system improvement. London: LGA.

Skelcher, C. and Rathgeb-Smith, S. (2016). Theorising hybridity: Institutional logics, complex organisations, and actor identities: The case of non-profits. *Public Administration* 93(2): 433-448.